MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015 / 2016 SESSION

DEC5028 – MACROECONOMICS

(Diploma Students Only)

03 MARCH 2016
9.00a.m – 11.00a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 12 pages only excluding the cover page.
2. Answer **ALL** questions for section A and B.
3. Answers for section A should be shaded on the OMR sheet provided.
4. For section B, please write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark). Answers for this section should be shaded on the OMR form.

1. Which of the following is a topic learned in Macroeconomics?

   A. Unemployment rate in Malaysia.
   B. The wage of auto workers.
   C. The price of Dell computers.
   D. The amount of pizza produced.

2. The major lesson of the circular flow diagram is that _____.

   A. saving must always be less than investment.
   B. taxes must always be greater than government expenditures.
   C. total income in the economy must always equal total spending.
   D. tax receipts must be equal to transfer payments.

3. The fact that wants cannot be fully satisfied with available resources reflects the definition of _____.

   A. the what tradeoff.
   B. scarcity.
   C. the big tradeoff.
   D. for whom to produces.

4. An increase in overall price level is known as _____.

   A. deflation.
   B. recession.
   C. inflation.
   D. stagflation.

5. The total market values of all finals goods and services produced within a given period by factors of production located within a country is _____.

   A. gross domestic product.
   B. gross national product.
   C. net national product.
   D. net national income.

Continued.....

6. If no foreign companies produce in a country, but many of the country's companies produce abroad, then _____.

   A. the country's GNP will tend to exceed its GDP.
   B. the country's GDP will tends to exceed its GNP.
   C. the country's GNP and GDP will tend to be equal.
   D. the country's GDP will tend to be equal to its domestic income.

7. GDP equals _____.

   A. C + S + G + (X - M)
   B. C + I + G + (X + M)
   C. C + I + G + (X - M)
   D. C + S + G + (X - M)

8. Which of the following is **NOT** one of the components for computing GDP based upon the income approach?

   A. Investment
   B. Corporate profits
   C. Compensation of employees
   D. Net interest

9. Which of the following is a good or services counted in GDP?

   A. Tires Toyota buys to put on a car.
   B. A used tire buy for your personal car.
   C. A new tire you buy for your personal car.
   D. Used tires bought by a used car dealer to put on a car on his lot.

10. If you save $150 when you experience a $600 rise in your income, _____.

    A. your MPS is 0.25.
    B. your MPC is 0.80.
    C. your MPC is 0.85.
    D. your MPS is 0.40.

11. In a closed economy with no government, aggregate expenditure (AE) is _____.

    A. consumption plus investment.
    B. saving plus investment.
    C. consumption plus the MPC.
    D. MPC + MPS.

Continued.....

12. The MPC is _____.

A. the change in consumption divided by the change in income.
B. consumption divided by income.
C. the change in consumption divided by the change in saving.
D. the change in saving divided by the change in income.

13. The aggregate consumption function is C = 1,000 + 0.9Yd. If income is $3,900 and net taxes are $900, consumption equals _____.

A. 3,400.
B. 3,750.
C. 3,700.
D. 4,700.

14. Fiscal policy refers to _____.

A. the techniques used by a business firm to reduce its tax liability.
B. the behavior of the nation's central bank, the Federal Reserve, regarding the nation's money supply.
C. the spending and taxing policies used by the government to influence the economy.
D. the government's ability to regulate a firm's behavior in the financial markets.

15. The government purchases multiplier is _____.

A. the difference between the old equilibrium level of output and the new equilibrium level of output.
B. the ratio of the change in government purchases to the change in the equilibrium level of output.
C. the ratio of the change in the equilibrium level of output to a change in government purchases.
D. the difference between the new and old levels of government purchases.

16. Which of the following is **INCORRECT** regarding tax revenues?

A. It increases during recessions.
B. It changes with changes in the tax rate.
C. It is a revenue source in the government's budget.
D. It increases during economic expansions.

Continued.....

17. Using fiscal policy, to increase real GDP and employment the government could _____ government expenditure on goods and services or _____ taxes.

A. increase; increase
B. increase; decrease
C. decrease; increase
D. decrease; decrease

18. Which of the following factors causes the barter system to be inefficient?

A. Its cost of transaction is too low.
B. The cost associated with information search is too low.
C. It requires a double coincidence of wants.
D. It requires high liquidity.

19. **M1** is a measure of _____.

A. money and includes both currency and checking deposits.
B. liquidity and in which the most liquid asset is money.
C. money and includes both savings deposits and currency.
D. money and includes both savings deposits and money market mutual funds.

20.

Assets		Liabilities	
Reserves	$30	Deposits	$1,000
Loans	$970		
Total	$1,000	Total	$1,000

Table 1

Table 1 gives the initial balance sheet for ABC Bank. ABC Bank's desired reserves equal its required reserves. Based on the initial balance sheet, what is the required reserve ratio for ABC Bank?

A. 30 percent
B. 10 percent
C. 3 percent
D. 1.4 percent

Continued.....

21. Which of the following activities is one of the responsibilities of the Bank Negara Malaysia (**BNM**)?

A. Issuing new bonds to finance the federal budget deficit.
B. Loaning money to other countries that are friendly to the Malaysia.
C. Assisting banks that are in a difficult financial position.
D. Auditing the various agencies and departments of the federal government.

22. As a means of payment, the functions of money are _____.

A. medium of exchange and the ability to buy goods and services.
B. medium of exchange, unit of account, and means of lending.
C. pricing, contracts, and store of value.
D. medium of exchange, unit of account, and store of value.

23. The long-run aggregate supply (**LAS**) curve _____.

A. has a positive slope.
B. has a negative slope.
C. is vertical.
D. is horizontal.

24. The quantity of real GDP supplied depends on the _____.

A. level of aggregate demand.
B. quantity of capital, bonds, and stocks.
C. quantity of labor, the quantity of capital, and the state of technology.
D. price level, the unemployment rate, and the quantity of government expenditures on goods and services.

25. In the macroeconomic long run, _____.

A. GDP always is below potential GDP.
B. there is full employment with no unemployment.
C. output always is above potential GDP.
D. there is full employment and real GDP is equal to potential GDP.

Continued.....

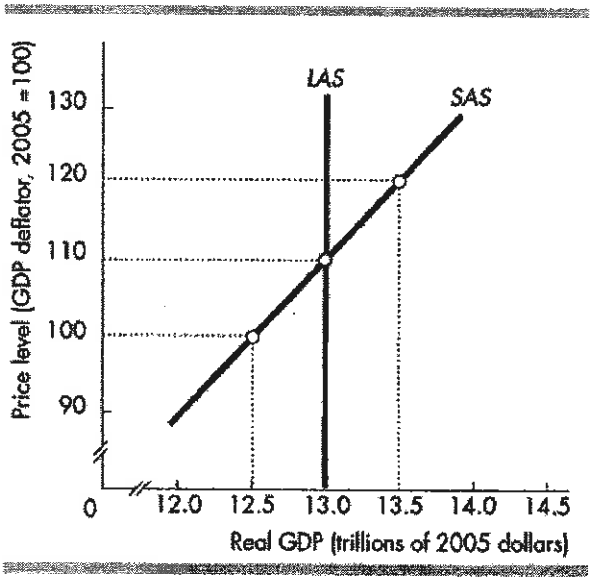

Figure 1

26. Based on Figure 1, the economy will be at full employment if the price level _____.

A. is 110.
B. is above 110.
C. is below 100.
D. is 120.

27. The short-run aggregate supply curve shifts leftward when the _____.

A. price level increases.
B. general level of technology advances.
C. money wage rate increases.
D. availability of on-the-job training expands to all workers.

28. Inflation can be started by _____.

A. a decrease in aggregate supply or a decrease in aggregate demand.
B. a decrease in aggregate supply or an increase in aggregate demand.
C. an increase in aggregate supply or an increase in aggregate demand.
D. an increase in aggregate supply or a decrease in aggregate demand.

Continued.....

29. Recession is a period during which aggregate output declines. Therefore, the type of unemployment that arises during recessions is known as _____.

A. the natural rate of unemployment.
B. cyclical unemployment.
C. structural unemployment.
D. frictional unemployment.

30. Suppose the latest wage rate in the labor market is $1,000 and the demand for labor decreases. If wages are sticky, _____.

A. unemployment decreases.
B. unemployment increases.
C. unemployment stays the same.
D. wages decreases to eliminate the surplus.

31. Phillips curves describe the relationship between _____.

A. aggregate expenditures and aggregate demand.
B. the quantity of money and interest rates.
C. unemployment and inflation.
D. aggregate demand and the price level.

32. The unemployment rate is calculated as _____.

A. [(labor force) ÷ (population)] × 100.
B. [(unemployment) ÷ (population)] × 100.
C. [(unemployment) ÷ (labor force)] × 100.
D. [(labor force) ÷ (unemployment)] × 100.

33. Economic growth can be best defined as _____.

A. a sustained expansion of production possibilities measured as the increase in nominal GDP over a given period.
B. a sustained expansion of production possibilities measured as the increase in real GDP.
C. a sustained expansion of consumption goods over a given period.
D. a sustained expansion of production goods over a given period.

Continued.....

34. If real GDP is $900 million and aggregate labor hours are 20 million, labor productivity is _____.

A. $45 per hour
B. $18,000 million
C. $45 million
D. $180 per hour

35. Assume Vietnam's current growth rate of real GDP per person is 1 percent a year. Approximately how long will it take to double real GDP per person?

A. 10 years
B. 35 years
C. 70 years
D. 100 years

36. According to the law of diminishing returns, an additional unit of _____.

A. labor decreases output.
B. capital produces more output than an additional unit of labor.
C. labor produces less output than the previous unit.
D. labor produces more output than the previous unit.

37. If 100 Japanese Yen buy more Malaysia Ringgits today than yesterday, the Ringgit has _____ and the Yen has _____.

A. depreciated; appreciated
B. appreciated; depreciated
C. depreciated; depreciated
D. appreciated; appreciated

38. Suppose that a dollar buys 120 yen. If a cellphone sells for 180,600 yen in Japan, the price of the cellphone in dollars is _____.

A. $1,860.00
B. $1,505.00
C. $1,200.00
D. $1,750.00

Continued.....

39. The theory of international exchange which holds that exchange rates are set so that the price of similar goods in different countries is the same is the _____.

A. purchasing power parity theory.
B. price feedback theory.
C. trade feedback theory.
D. j-curve theory.

40. What would be the effect on Malaysia imports and exports when Malaysia experiences strong economic growth but its major trading partners experience sluggish economic growth?

A. Malaysia import will increase more than Malaysia export
B. Malaysia export will increase more than Malaysia import
C. Malaysia import will decrease, but Malaysia export will increase
D. There will be no effect on Malaysia import and export

[TOTAL 40 MARKS]

Continued.....

SECTION B: STRUCTURED QUESTIONS (60 Marks)

Answer ALL questions. Answers should be written in the answer booklet provided.

QUESTION 1

Table 1 shows the output (income) (Y) of Country Z for ten years. The president of Country Z had instructed the Ministry of Economics to analyze the country's economic condition.

For ten years, the government had charged $200 for income tax for every income level. The Ministry of Economics had ruled out the consumption equation to be

C = 50 + 0.6Yd.

As one of the economic officer in the ministry, you are required to:

YEAR	OUTPUT (INCOME) (Y) ($ million)	PLANNED INVESTMENT SPENDING (I) ($ million)	GOVERNMENT PURCHASES (G) ($ million)
1	500	300	200
2	700	300	230
3	900	300	250
4	1,100	300	280
5	1,300	300	290
6	1,500	300	330
7	1,700	300	350
8	1,900	300	400
9	2,100	300	420
10	2,300	300	440

Table 1

a) Calculate disposable income **(Yd)**, consumption spending **(C)** and saving **(S)** for every year in table form. (15 marks)

b) Calculate the country's Planned Aggregate Expenditure **(AE)** for every year in table form. (5 marks)

c) Calculate the unplanned inventory change for **Year 5**. (5 marks)

[25 MARKS]

Continued.....

QUESTION 2

a) Briefly explain the relationship between unemployment rate (**U**) with:

i. Aggregate output (**Y**) and; (2 marks)

ii. Price level (**P**). (2 marks)

b) Figure 1 and Figure 2 shows the aggregate supply (**AS**) and aggregate demand (**AD**) curve. Analyze its impact to unemployment rate when:

i. AD^1 shifts to AD^2; (2 marks)

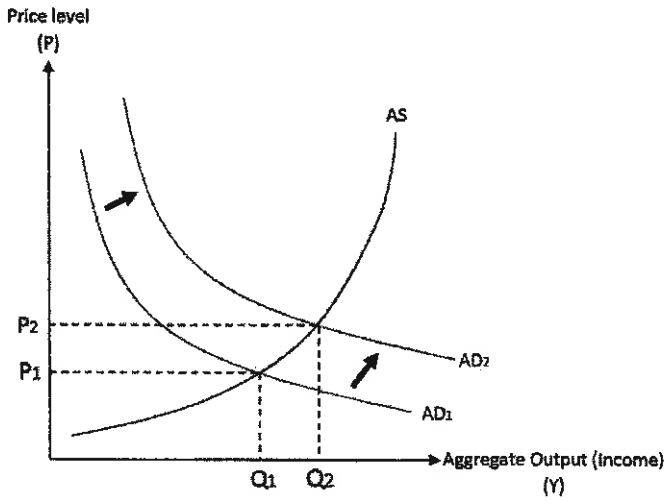

Figure 1

ii. AS^1 shifts to AS^2. (2 marks)

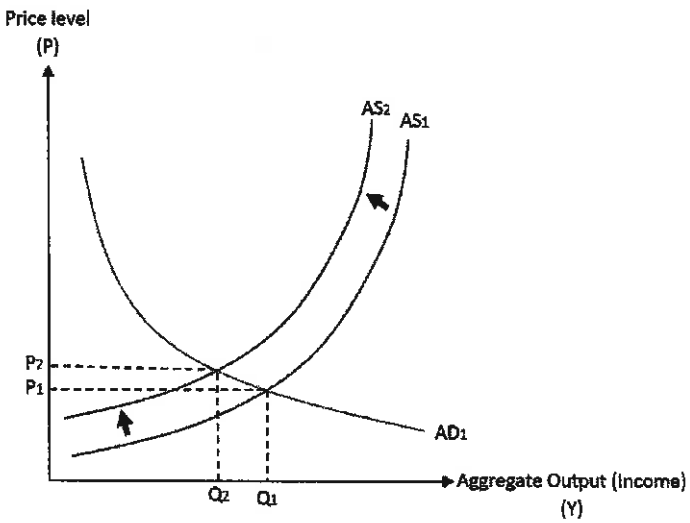

Figure 2

[8 MARKS]

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QUESTION 3

a) There are **THREE (3)** factors that could promote labor productivity growth. List and elaborate it. (6 marks)

b) Explain the terms below:

i. Catch-up (2 marks)

ii. Innovation (2 marks)

iii. Rule of 70 (2 marks)

c) Explain the effect of population growth to potential GDP. (5 marks)

[17 MARKS]

QUESTION 4

a) Justify how exchange rate could influence the quantity demanded for Malaysian Ringgit (**RM**) in the foreign exchange market. (6 marks)

b) Define balance of payment. (2 marks)

c) List only **TWO (2)** types of account in the balance of payment. (2 marks)

[10 MARKS]

[TOTAL 60 MARKS]

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